

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 1074 - HB 1529

February 22, 2011

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5 percent to 5.0 percent in FY11-12, and from 5.0 percent to 4.5 percent in FY12-13.

ESTIMATED FISCAL IMPACT:

**Decrease State Revenue – Net Impact - \$41,456,300/FY11-12
\$82,912,500/FY12-13 and
Subsequent Years**

**Decrease Local Revenue – Net Impact - \$1,507,700/FY11-12
\$3,015,300/FY12-13 and
Subsequent Years**

Assumptions:

- Fifty percent of tax savings will be spent on other non-food sales-taxable goods and services.
- According to the Department of Revenue, state sales tax collections from food and food ingredients in FY09-10 were approximately \$476,900,000.
- Based on historical growth rates for food sales, retail sales of food and food ingredients grow by two percent per year. Under current law, state sales tax collections from food and food ingredients for FY11-12 are estimated to be \$496,166,800 ($\$476,900,000 \times 102.0\% \times 102.0\%$).
- Each half-percent increment of the current 5.5 percent state sales tax rate levied on food and food ingredients generates approximately \$45,106,073 [$\$496,166,800 / (5.5 / 0.5)$] of state sales tax revenue. Therefore, a decrease in state sales tax revenue of \$45,106,073 in FY11-12.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Local governments are not held harmless from the loss of state-shared sales tax revenue.
- The decrease in local government revenue from loss of state-shared sales tax revenue will be \$2,071,496 ($\$45,106,073 \times 4.5925\%$) in FY11-12.

- The increase in state sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be \$1,578,713 ($\$45,106,073 \times 50.0\% \times 7.0\%$ current state sales tax rate) in FY11-12.
- The net decrease in state revenue will be \$41,456,264 ($\$45,106,073 - \$2,071,496 - \$1,578,313$) in FY11-12.
- The increase in local option sales tax revenue as a result of 50 percent of tax savings being spent on other non-food sales-taxable goods and services will be \$563,826 ($\$45,106,073 \times 50.0\% \times 2.5\%$ average local option sales tax rate) in FY11-12.
- The net decrease in local government revenue will be \$1,507,670 ($\$2,071,496 - \$563,826$) in FY11-12.
- Reducing the sales tax rate on food and food ingredients by an additional 0.5 percent increment (to 4.5 percent) for FY12-13 and subsequent years will cause total net recurring decreases in state and local government revenue equivalent to the net decreases in revenue estimated for FY10-11 multiplied by two.
- The recurring net decrease in state revenue will be \$82,912,528 ($\$41,456,264 \times 2$) beginning in FY12-13.
- The recurring net decrease in local government revenue will be \$3,015,340 ($\$1,507,670 \times 2$) beginning in FY12-13.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc